

MARKET CONDUCT EXAMINATION REPORT

OF

RESPONSE INSURANCE COMPANY

AND

**RESPONSE WORLDWIDE DIRECT AUTO
INSURANCE COMPANY**

AS OF

DECEMBER 31, 2010

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

**Property and Casualty Division
Market Conduct Section**

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

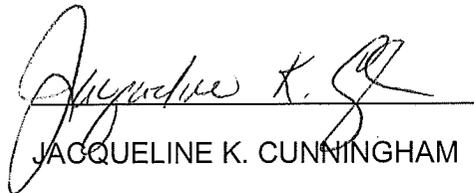


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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination Report of Response Insurance Company and Response Worldwide Direct Auto Insurance Company as of July 12, 2012, which took place at the companies' office in Plymouth Meeting, Pennsylvania is a true copy of the original Report on file with the Bureau and also includes a true copy of the companies' final response to the findings set forth therein, and of the Bureau's letter and the Order of the State Corporation Commission finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of this the Bureau
at the City of Richmond, Virginia,
this **date** 16th of **August, 2012**.



JACQUELINE K. CUNNINGHAM
Commissioner of Insurance

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TABLE OF CONTENTS

INTRODUCTION	1
COMPANY PROFILES	1
SCOPE OF THE EXAMINATION	5
STATISTICAL SUMMARY	6
PART ONE - THE EXAMINERS' OBSERVATIONS	8
RATING AND UNDERWRITING REVIEW	8
Automobile New Business Policies	8
Automobile Renewal Business Policies	9
TERMINATION REVIEW	10
Company-Initiated Cancellations – Automobile Policies	10
Notice Mailed Prior to the 60 th Day of Coverage	10
Notice Mailed After the 59 th Day of Coverage	10
All Other Cancellations – Automobile Policies	11
Nonpayment of the Premium	11
Requested by the Insured	12
Company-Initiated Non-renewals – Automobile Policies	12
CLAIMS REVIEW	13
Automobile Claims	13
REVIEW OF FORMS	17
Automobile Policy Forms	17
Policy Forms Used During the Examination Period	17
Policy Forms Currently Used	17
REVIEW OF THE POLICY ISSUANCE PROCESS	17
Automobile Policies	18
Renewal Business Policies	18
REVIEW OF STATUTORY NOTICES	18
General Statutory Notices	19

Statutory Vehicle Notices.....	19
Other Notices.....	20
REVIEW OF THE COMPLAINT-HANDLING PROCESS.....	20
REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES.....	20
PART TWO – CORRECTIVE ACTION PLAN	21
General.....	21
Rating and Underwriting Review.....	21
Termination Review	22
Claims Review	23
Review of Policy Issuance Process.....	24
Review of Statutory Notices	24
PART THREE – RECOMMENDATIONS	26
RECOMMENDATIONS	26
Rating and Underwriting	26
Termination.....	26
Claims	26
SUMMARY OF PREVIOUS EXAMINATION FINDINGS.....	27
ACKNOWLEDGEMENT	28

INTRODUCTION

Pursuant to the authority of § 38.2-1317 of the Code of Virginia, a market conduct examination has been made of the private passenger automobile lines of business written by Response Insurance Company and Response Worldwide Direct Auto Insurance Company at their office in Plymouth Meeting, Pennsylvania.

The examination commenced August 14, 2011 and concluded January 12, 2012. Andrea D. Baytop, William T. Felvey, Karen S. Gerber, Ju'Coby Hendrick, and Richard L. Howell, examiners of the Bureau of Insurance, participated in the work of the examination. The examination was called in the Examination Tracking System on September 9, 2010 and was assigned the examination number of VA199-M25. The examination was conducted in accordance with the procedures established by the National Association of Insurance Commissioners (NAIC).

COMPANY PROFILES*

Response Insurance Company (RIC) was incorporated under the laws of Delaware on May 26, 1983 as John Hancock Indemnity Company. Direct Response Corporation acquired the company on September 12, 1996. The current title was adopted on December 23, 1996. On May 31, 2007, the company re-domesticated from Delaware to Connecticut and from Connecticut to Illinois on December 16, 2009.

Response Worldwide Direct Auto Insurance Company (RWDAIC) was incorporated under the laws of Kentucky on November 13, 1961 and commenced business the same day. Operations were conducted under the name Commonwealth Fire & Casualty Insurance Company. Ownership passed on December 1, 1979 from Commonwealth Life Insurance Company to Providian Corporation, Louisville, Kentucky. On May 15, 1981, the title was changed to Capital Enterprise Insurance Company. On

* Source: Best's Insurance Reports, Property & Casualty, 2010 Edition.

December 31, 1986, ownership changed again to former Worldwide Underwriters Insurance Company, St. Louis, Missouri (now known as Providian Auto & Home Insurance Company), a wholly owned subsidiary of Aegon USA. The company's name was changed to Providian Property and Casualty Insurance Company on July 1, 1995. The name was changed again on October 16, 1998 to Worldwide Direct Auto Insurance Company. Ownership of the company changed again following the sale of the company by Aegon to American Financial Group, effective April 1999. The company was re-domesticated from Kentucky to Ohio in June 2002, from Ohio to Connecticut on March 21, 2005, and from Connecticut to Illinois on December 16, 2009. Effective April 25, 2003, the company was acquired by Warner Insurance Company, part of the Response family of companies. The company's current title was adopted on May 27, 2003.

The table below indicates when the companies were licensed in Virginia and the lines of insurance that the companies were licensed to write in Virginia during the examination period. All lines of insurance were authorized on the date the companies were licensed in Virginia.

GROUP CODE: 0215	RIC	RWDAIC
NAIC Company Number	43044	20133
LICENSED IN VIRGINIA	7/23/1985	11/25/1981
LINES OF INSURANCE		
Accident and Sickness	X	
Aircraft Liability	X	
Aircraft Physical Damage	X	
Animal	X	
Automobile Liability	X	X
Automobile Physical Damage	X	X
Boiler and Machinery	X	
Burglary and Theft	X	
Commercial Multi-Peril	X	
Credit	X	X
Farmowners Multi-Peril	X	
Fidelity		
Fire	X	X
General Liability	X	X
Glass	X	
Homeowner Multi-Peril	X	X
Inland Marine	X	X
Miscellaneous Property	X	X
Ocean Marine	X	
Surety		
Water Damage	X	
Workers' Compensation		

The table below shows the companies' premium volume and approximate market share of business written in Virginia during 2010 for the lines of insurance included in this examination.* This business was developed through captive agents.

COMPANY AND LINE	PREMIUM VOLUME	MARKET SHARE
Response Insurance Company		
Private Automobile Liability	\$339,028	.01%
Private Automobile Physical Damage	\$245,841	.01%
Response Worldwide Direct Auto Insurance Company		
Private Automobile Liability	\$699,716	.03%
Private Automobile Physical Damage	\$416,310	.02%

* Source: The 2010 Annual Statement on file with the Bureau of Insurance and the Virginia Bureau of Insurance Statistical Report

SCOPE OF THE EXAMINATION

The examination included a detailed review of the companies' private passenger automobile lines of business written in Virginia for the period beginning January 1, 2010 and ending December 31, 2010. This review included rating, underwriting, policy terminations, claims handling, forms, policy issuance*, statutory notices, complaint-handling, and information security practices. The purpose of this examination was to determine compliance with Virginia insurance statutes and regulations and to determine that the companies' operations were consistent with public interest. The Report is by test, and all tests applied during the examination are reported.

This Report is divided into three sections, Part One – The Examiners' Observations, Part Two – Corrective Action Plan, and Part Three – Recommendations. Part One outlines all of the violations of Virginia insurance statutes and regulations that were cited during the examination. In addition, the examiners cited instances where the companies failed to adhere to the provisions of the policies issued on risks located in Virginia. Finally, violations of other related laws that apply to insurers, characterized as "Other Law Violations," are also noted in this section of the report.

In Part Two, the Corrective Action Plan identifies the violations that rise to the level of a general business practice and are subject to a monetary penalty.

In Part Three, the examiners list recommendations regarding the companies' practices that require some action by the companies. This section also summarizes the violations for which the companies were cited in previous examinations.

* Policies reviewed under this category reflected the companies' current practices and, therefore, fell outside of the exam period.

The examiners may not have discovered every unacceptable or non-compliant activity in which the companies engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Bureau.

STATISTICAL SUMMARY

The files selected for the review of the rating and underwriting, termination, and claims handling processes were chosen by random sampling of the various populations provided by the companies. The relationship between population and sample is shown on the following page.

In other areas of the examination, the sampling methodology is different. The examiners have explained the methodology for those areas in corresponding sections of the Report.

The details of the errors will be explained in Part One of this Report. General business practices may or may not be reflected by the number of errors shown in the summary.

AREA	<u>Population</u>			<u>FILES</u> <u>REVIEWED</u>	<u>FILES NOT</u> <u>FOUND</u>	<u>FILES WITH</u> <u>ERRORS</u>	<u>ERROR</u> <u>RATIO</u>
	Sample Requested						
	<u>RIC</u>	<u>RWDAIC</u>	<u>TOTAL</u>				
<u>Private Passenger Auto</u>							
New Business	<u>2</u> 2	<u>0</u> 0	<u>2</u> 2	2	0	2	100%
Renewal Business	<u>560</u> 20	<u>2230</u> 30	<u>2790</u> 50	50	0	41	82%
Co-Initiated Cancellations*	<u>4</u> 4	<u>16</u> 10	<u>20</u> 14	13	0	10	77%
All Other Cancellations*	<u>123</u> 16	<u>441</u> 23	<u>564</u> 39	26	0	14	54%
Nonrenewals*	<u>5</u> 5	<u>35</u> 5	<u>40</u> 10	11	0	2	18%
<u>Claims</u>							
Auto	<u>211</u> 28	<u>333</u> 30	<u>544</u> 58	58	0	36	62%

Footnote* The Companies were unable to provide accurate cancellation population data.

PART ONE - THE EXAMINERS' OBSERVATIONS

This section of the Report contains all of the observations that the examiners provided to the companies. These include all instances where the companies violated Virginia insurance statutes and regulations. In addition, the examiners noted any instances where the companies violated any other Virginia laws applicable to insurers.

RATING AND UNDERWRITING REVIEW

Automobile New Business Policies

The Bureau requested two new business policy files for review. The examiners reviewed both of these files. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-502 A of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company incorrectly showed a daily limit for Transportation Expenses coverage on the declarations page.
- (2) The examiners found two violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rule and/or rates on file with the Bureau. The company failed to use the correct tier eligibility criteria.
- (3) The examiners found one violation of § 38.2-2234 A of the Code of Virginia. The company failed to provide the Insurance Credit Score Disclosure notice at the time of application.

Automobile Renewal Business Policies

The Bureau requested 50 renewal business policy files for review. The examiners reviewed all of these files. As a result of this review, the examiners found overcharges totaling \$2,894.00 and undercharges totaling \$1,141.00. The net amount that should be refunded to insureds is \$2,894.00 plus six percent (6%) simple interest.

- (1) The examiners found one violation of § 38.2-305 A of the Code of Virginia. The company failed to specify in the insurance policy all of the information required by the statute. The company failed to list all applicable endorsements on the declarations page.
- (2) The examiners found 21 violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company incorrectly showed a daily limit for Transportation Expenses coverage on the declarations page.
- (3) The examiners found six violations of § 38.2-1905 A of the Code of Virginia. The company failed to notify the insured in writing that his policy had been surcharged for an at-fault accident.
- (4) The examiners found two violations of § 38.2-1906 A of the Code of Virginia. The company failed to file all rates and supplementary rate information. The company failed to file territories for all applicable zip codes.
- (5) The examiners found 75 violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau.
 - a. In five instances, the company failed to use the correct discounts and/or surcharges.
 - b. In seven instances, the company failed to use the correct symbol or model year factors.

- c. In 11 instances, the company failed to use the correct tier eligibility criteria.
- d. In five instances, the company failed to use the correct driver classification factors.
- e. In one instance, the company failed to use the correct base and/or final rates.
- f. In 16 instances, the company failed to follow its filed rounding rule.
- g. In 30 instances, the company failed to use its filed tier factors.

TERMINATION REVIEW

The Bureau requested cancellation files in several categories due to the difference in the way these categories are treated by Virginia insurance statutes, regulations, and policy provisions. The breakdown of these categories is described below.

Company-Initiated Cancellations – Automobile Policies

NOTICE MAILED PRIOR TO THE 60TH DAY OF COVERAGE

The Bureau requested one automobile cancellation that was initiated by the companies where the companies mailed the notices prior to the 60th day of coverage in the initial policy period. The examiners reviewed this file. As a result of this review, the examiners found no overcharges and no undercharges.

The examiners found no violations in this area.

NOTICE MAILED AFTER THE 59TH DAY OF COVERAGE

The Bureau requested 13 automobile cancellations that were initiated by the companies where the companies mailed the notices on or after the 60th day of coverage in the initial policy period or at any time during the term of a subsequent renewal policy.

The examiners reviewed 12 of these files. One file was moved to the Company-Initiated Non-renewal category. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found 12 violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to provide proper notice of cancellation notice to the lienholder.
 - b. In 11 instances, the company failed to retain proof of mailing the cancellation notice to the lienholder.
- (2) The examiners found five violations of § 38.2-2212 D of the Code of Virginia. The company cancelled the insured's motor vehicle policy due to revocation or suspension of a driver's license that did not occur during the period of time allowed by the statute.

All Other Cancellations – Automobile Policies

NONPAYMENT OF THE PREMIUM

The Bureau requested 25 automobile cancellations that were initiated by the companies for nonpayment of the policy premium. The examiners reviewed 14 of these files. Eleven files were expired policies and therefore not reviewed. As a result of this review, the examiners found overcharges totaling \$5.00 and undercharges totaling \$4.32. The net amount that should be refunded to insureds is \$5.00 plus six percent (6%) simple interest.

- (1) The examiners found three violations of § 38.2-1906 D of the Code of Virginia. The company failed to use the rules and/or rates on file with the Bureau. The company failed to calculate the return premium correctly.

- (2) The examiners found one violation of § 38.2-2208 A of the Code of Virginia. The company failed to obtain valid proof of mailing the cancellation notice to the insured.
- (3) The examiners found 13 violations of § 38.2-2208 B of the Code of Virginia.
 - a. In one instance, the company failed to retain proof of mailing the cancellation notice to the insured.
 - b. In 12 instances, the company failed to provide proper notice of cancellation to the lienholder.

REQUESTED BY THE INSURED

In addition, the Bureau requested 14 automobile cancellations that were initiated by the insured where the cancellation was to be effective during the policy term. The examiners reviewed 12 of these files. Two files were expired policies and therefore not reviewed. As a result of this review, the examiners found no overcharges and no undercharges.

- (1) The examiners found one violation of § 38.2-2212 F of the Code of Virginia. The company failed to obtain the insured's written request to cancel his policy mid-term.
- (2) The examiners found two occurrences where the company failed to comply with the provisions of the insurance policy. The company failed to obtain an advanced written request for cancellation from the insured.

Company-Initiated Non-renewals – Automobile Policies

The Bureau requested ten automobile non-renewals that were initiated by the companies. The examiners reviewed all of these files. The examiners reviewed one additional file that the company incorrectly provided in the Notice Mailed After the 59th Day of Coverage category.

The examiners found two violations of § 38.2-2208 B of the Code of Virginia. The company failed to retain proof of mailing the refusal to renew notice to the lienholder.

CLAIMS REVIEW

Automobile Claims

The examiners reviewed 58 automobile claims for the period of January 1, 2010 through December 31, 2010. The findings below appear to be contrary to the standards set forth by Virginia insurance statutes and regulations. As a result of this review, the examiners found overpayments totaling \$2,026.43 and underpayments totaling \$3,849.64. The net amount that should be paid to claimants is \$3765.08 plus six percent (6%) simple interest.

- (1) The examiners found three violations of 14 VAC 5-400-30. The company failed to document the claim file sufficiently to reconstruct events and/or dates that were pertinent to the claim.
- (2) The examiners found ten violations of 14 VAC 5-400-40 A. The company obscured or concealed from a first party claimant, directly or by omission, benefits, coverages, or other provisions of an insurance contract that were pertinent to the claim.
 - a. In one instance, the company failed to inform the insured of his Collision or Other Than Collision (OTC) coverage when the file indicated the coverage was applicable to the loss.
 - b. In one instance, the company failed to inform an insured of his Medical Expense Benefits coverage when the file indicated the coverage was applicable to the loss.
 - c. In seven instances, the company failed to accurately inform an insured of

his Transportation Expenses coverage when the file indicated the coverage was applicable to the loss.

- d. In one instance, the company failed to inform an insured of the benefits or coverages, including rental benefits, available under the Uninsured Motorist Property Damage coverage (UMPD) and/or Underinsured Motorist coverage (UIM).

These findings occurred with such frequency as to indicate a general business practice.

- (3) The examiners found one violation of 14 VAC 5-400-50 C. The company failed to make an appropriate reply within ten working days to pertinent communications from a claimant, or a claimant's authorized representative, that reasonably suggested a response was expected.
- (4) The examiners found three violations of 14 VAC 5-400-70 A. The company failed to deny a claim or part of a claim, in writing, and/or failed to keep a copy of the written denial in the claim file.
- (5) The examiners found six violations of 14 VAC 5-400-70 D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim, or failed to pay a claim in accordance with the insured's policy provisions.
 - a. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Uninsured Motorist coverage.
 - b. In one instance, the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.

- c. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Transportation Expenses coverage.
- d. In two instances, the company failed to pay the claim in accordance with the policy provisions under the insured's Collision or Other Than Collision (OTC) coverage.

These findings occurred with such frequency as to indicate a general business practice.

- (6) The examiners found six violations of 14 VAC 5-400-80 D. The company failed to provide the vehicle owner a copy of the estimate for the cost of repairs prepared by or on behalf of the company.

These findings occurred with such frequency as to indicate a general business practice.

- (7) The examiners found nine violations of § 38.2-510 A 1 of the Code of Virginia. The company misrepresented pertinent facts or insurance policy provisions relating to coverages at issue.

These findings occurred with such frequency as to indicate a general business practice.

- (8) The examiners found two violations of § 38.2-510 A 3 of the Code of Virginia. The company failed to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

- (9) The examiners found one violation of § 38.2-510 A 10 of the Code of Virginia. The company made a claim payment to the insured or beneficiary that was not accompanied by a statement setting forth the correct coverage(s) under which

payment was made.

- (10) The examiners found five violations of § 38.2-510 C of the Code of Virginia.
- a. In four instances, the company failed to provide an aftermarket parts notice on the insured owner's estimate that complied with the statute.
 - b. In one instance, the company failed to provide an aftermarket parts notice on the claimant owner's estimate that complied with the statute.

These findings occurred with such frequency as to indicate a general business practice.

- (11) The examiners found three violations of § 38.2-2201 B of the Code of Virginia. The company failed to obtain a statement from an insured to make payments directly to the medical provider.

- (12) The examiners found 17 occurrences where the company failed to comply with the provisions of the insurance contract.
- a. In five instances, the company failed to include the lienholder on the check.
 - b. In eight instances, the company paid an insured more than he/she was entitled to receive under the terms of his/her policy.
 - c. In four instances, the company issued a payment under the incorrect coverage.

Other Law Violations

Although not a violation of the Virginia insurance laws, the examiners noted the following as a violation of another Virginia law.

The examiners found 12 violations of § 52-40 of the Code of Virginia. The company failed to include the statement regarding insurance fraud on claim forms required by the company as a condition of payment.

REVIEW OF FORMS

The examiners reviewed the companies' policy forms and endorsements used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the policy forms and endorsements used during the examination period for each line of business listed below, the Bureau requested copies from the companies. In addition, the Bureau requested copies of new and renewal business policy mailings that the companies were processing at the time of the Examination Data Call. The details of these policies are set forth in the Review of the Policy Issuance Process section of the Report. The examiners then reviewed the forms used on these policies to verify the companies' current practices.

Automobile Policy Forms**POLICY FORMS USED DURING THE EXAMINATION PERIOD**

The companies provided copies of 20 forms that were used during the examination period to provide coverage on policies insuring risks located in Virginia.

The examiners found no violations in this area.

POLICY FORMS CURRENTLY USED

The examiners found no additional forms to review.

REVIEW OF THE POLICY ISSUANCE PROCESS

To obtain sample policies to review the companies' policy issuance process for the lines examined, the examiners requested new and renewal business policy mailings that were sent after the companies received the Examination Data Call. The companies were instructed to provide duplicates of the entire packet that was provided to the insured. The details of these policies are set forth below.

For this review, the examiners verified that the companies enclosed and listed all of the applicable policy forms on the declarations page. In addition, the examiners verified that all required notices were enclosed with each policy. Finally, the examiners verified that the coverages on the new business policies were the same as those requested on the applications for those policies.

Automobile Policies

The companies ceased writing new policies in 2011 and therefore, did not have any new business policies for this review. The companies provided ten renewal business policies mailed on the following dates: March 27, 30, and 31, 2011; and April 1, 2011.

RENEWAL BUSINESS POLICIES

The examiners found two violations of § 38.2-502 of the Code of Virginia. The company misrepresented the benefits, advantages, conditions or terms of the insurance policy. The company incorrectly showed a daily limit for Transportation Expenses coverage on the declarations page.

REVIEW OF STATUTORY NOTICES

The examiners reviewed the companies' statutory notices used during the examination period and those that are currently used for all of the lines of business examined. From this review, the examiners verified the companies' compliance with Virginia insurance statutes and regulations.

To obtain copies of the statutory notices used during the examination period for each line of business listed below, the Bureau requested copies from the companies. For those currently used, the Bureau used the same new and renewal business policy mailings that were previously described in the Review of the Policy Issuance Process section of the Report.

The examiners verified that the notices used by the companies on all applications, on all policies, and those special notices used for vehicle policies issued on risks located in Virginia complied with the Code of Virginia. The examiners also reviewed documents that were created by the companies, but were not required by the Code of Virginia. These documents are addressed in the Other Notices category below.

General Statutory Notices

- (1) The examiners found two violations of § 38.2-604 B of the Code of Virginia. The companies' long form Notice of Information Collection and Disclosure Practices did not contain all of the information required by this statute.
- (2) The examiners found two violations of § 38.2-604 C of the Code of Virginia. The companies' short form Notice of Information Collection and Disclosure Practices did not contain all the information required by this statute.
- (3) The examiners found six violations of § 38.2-610 A of the Code of Virginia. The companies' Adverse Underwriting Decision notice did not contain language substantially similar to that of the prototype set forth in Administrative Letter 1981-16.

Statutory Vehicle Notices

- (1) The examiners found two violations of § 38.2-1905 A of the Code of Virginia. The companies failed to have available for use an Accident Point Surcharge notice as required by the statute.
- (2) The examiners found two violations of § 38.2-2202 B of the Code of Virginia. The companies failed to provide the rejection of higher uninsured motorist coverage limits notice in the precise language required by the statute.
- (3) The examiners found one violation of § 38.2-2210 A of the Code of Virginia. The

company failed to include the 60-day cancellation warning notice on or attached to the first page of the application.

- (4) The examiners found four violations of § 38.2-2212 E of the Code of Virginia.
 - a. In two instances, the companies failed to advise the insured of his right to request a review by the Commissioner of Insurance.
 - b. In two instances, the companies failed to advise the insured of the availability of other insurance through his agent, another insurer or the VAIP.
- (5) The examiners found three violations of § 38.2-2234 A of the Code of Virginia. The companies failed to include all of the information required by the statute in the Credit Score Disclosure notice.

Other Notices

The companies provided copies of three other notices including applications that were used during the examination period.

The examiners found no violations in this area.

REVIEW OF THE COMPLAINT-HANDLING PROCESS

A review was made of the companies' complaint-handling procedures and record of complaints to verify compliance with § 38.2-511 of the Code of Virginia.

The examiners found no violations in this area.

REVIEW OF PRIVACY AND INFORMATION SECURITY PROCEDURES

The Bureau requested a copy of the companies' information security program that protects the privacy of policyholder information. The companies submitted their security information as required by § 38.2-613.2 of the Code of Virginia.

The examiners found no violations in this area.

PART TWO – CORRECTIVE ACTION PLAN

Business practices and the error tolerance guidelines are determined in accordance with the standards set forth by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the companies, with the exception of claims handling. The threshold applied to claims handling was seven percent (7%). Any error ratio above these thresholds indicates a general business practice. In some instances, such as filing requirements, forms and notices, the Bureau applies a zero tolerance standard. This section identifies the violations that were found to be business practices of Virginia insurance statutes and regulations.

General

Response Insurance Company and
Response Worldwide Direct Auto Insurance Company shall:

Provide a Corrective Action Plan (CAP) with their response to the Report.

Rating and Underwriting Review

Response Insurance Company and
Response Worldwide Direct Auto Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as of the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited During the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.

- (4) Properly represent the benefits, coverage, advantages and conditions of the policy by showing the correct Transportation Expense limit on the declarations page.
- (5) Provide the Accident Point Surcharge notice to the insured when the companies surcharge the policy for an at-fault accident.
- (6) File all rates and supplementary rates with the Bureau.
- (7) Use the rules and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, symbols and model years, tier eligibility criteria, driver classification factors, rounding rules, and filed tier factors.
- (8) Submit to the Bureau a report showing the policy number and the corresponding restitution made to insureds as a result of the tier factor violations on policies effective since August 27, 2008.

Termination Review

Response Insurance Company and
Response Worldwide Direct Auto Insurance Company shall:

- (1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- (2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- (3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- (4) Calculate earned premium according to its filed rules and policy provisions.

- (5) Cancel private passenger automobile policies only for those reasons permitted by § 38.2-2212 of the Code of Virginia when the notice is mailed after the 59th day of coverage.
- (6) Obtain and retain valid proof of mailing the cancellation notice to the insured.
- (7) Retain valid proof of mailing the cancellation notice to the lienholder.
- (8) Provide proper notice of cancellation to the lienholder when canceling a policy.

Claims Review

Response Insurance Company and
Response Worldwide Direct Auto Insurance Company shall:

- (1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- (2) Include six percent (6%) simple interest in the amount paid to the insureds and claimants.
- (3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the file.
- (4) Document the claim files so that all applicable coverages have been discussed with the insured. Particular attention should be given to Transportation Expenses coverage.
- (5) Negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.
- (6) Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds.
- (7) Properly represent pertinent facts or insurance provisions relating to the

coverage at issue.

- (8) Provide an aftermarket parts notice to the vehicle owner that complies with the statute.

Review of Policy Issuance Process

Response Insurance Company and
Response Worldwide Direct Auto Insurance Company shall:

Properly represent the benefits, coverage, advantages and conditions of the policy by showing the correct Transportation Expense limit on the declarations page.

Review of Statutory Notices

Response Insurance Company and
Response Worldwide Direct Auto Insurance Company shall:

- (1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- (2) Amend the short form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- (3) Amend the Adverse Underwriting Decision notice to comply with t§ 38.2-610 A of the Code of Virginia and Administrative Letter 1981-16.
- (4) Develop an Accident Point Surcharge notice that complies with § 38.2-1905 A of the Code of Virginia.
- (5) Amend the Rejection of Higher Uninsured Motorist Coverage Limits notice to comply with § 38.2-2202 B of the Code of Virginia.
- (6) Amend the Cancellation notice to comply with § 38.2-2212 E 4 of the Code of Virginia.

- (7) Amend the Cancellation notice to comply with § 38.2-2212 E 5 of the Code of Virginia.
- (8) Provide the 60-day cancellation warning notice on or attached to the first page of the application to comply with § 38.2-2210 A of the Code of Virginia.
- (9) Amend the Credit Score Disclosure notice to comply with § 38.2-2234 A 1 of the Code of Virginia.

PART THREE – RECOMMENDATIONS

The examiners also found violations that did not appear to rise to the level of business practices by the companies. The companies should carefully scrutinize these errors and correct the causes before these errors become business practices. The following errors will not be included in the settlement offer:

RECOMMENDATIONS

We recommend the companies take the following actions:

Rating and Underwriting

- The companies should file a manual revision that includes model year factors for all rated vehicles and tier claim factor computations.

Termination

- The companies should allow renewal policies to expire when the insured has not provided any premium to accept the companies' renewal offer and cease sending several nonpayment cancellation notices that charge late fees on these expired policies.
- The companies should follow the requirements of their forms when accepting requests from insureds to cancel the policy mid-term.

Claims

- The companies should document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- The companies should deny a claim in writing and keep a copy of the written denial in the claim file.
- The companies should adopt and implement standards for prompt investigation of claims.
- The companies should obtain a written authorization from an insured prior to making payments directly to the medical provider.
- The companies should comply with the provisions of their contract.

- The companies should include the fraud statement on all claim forms required by the companies as a condition of payment.
- The companies should delete any reference to excluded household drivers in their systems.
- The companies should use the term "Other than Collision" coverage instead of "Comprehensive" on checks.
- The companies should use the term "Medical Expense Benefits" coverage instead of "Med Pay Benefits" on checks.

SUMMARY OF PREVIOUS EXAMINATION FINDINGS

This is the first time the Virginia Bureau of Insurance has conducted an examination of the companies.

ACKNOWLEDGEMENT

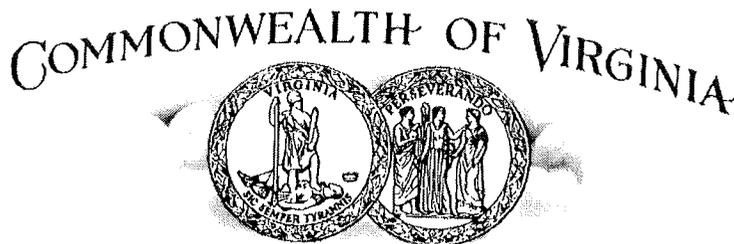
The courteous cooperation extended by the officers and employees of the companies during the course of the examination is gratefully acknowledged.

Sincerely,

A handwritten signature in black ink that reads "Andrea Baytop". The signature is written in a cursive, flowing style.

Andrea Baytop
Senior Insurance Market Examiner

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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March 6, 2012

VIA UPS 2nd DAY DELIVERY

Donald Roinestad, CPCU, CLU, CIC, CRM, AMIM
Director of Compliance
Unitrin Direct
502 West Germantown Pike, Ste. 900
Plymouth Meeting, PA 19462

RE: Market Conduct Examination
Response Insurance Company (NAIC #43044)
Response Worldwide Direct Auto Insurance Company (NAIC #20133)

Dear Mr. Roinestad:

The Bureau of Insurance (Bureau) has conducted a market conduct examination of the above referenced companies for the period of January 1, 2010, through December 31, 2010. The preliminary examination report (Report) has been drafted for the companies' review.

Enclosed with this letter is a copy of the preliminary examination report and copies of review sheets that have been withdrawn or revised since January 12, 2012. Also enclosed are several reports that will provide you with the specific file references for the violations listed in the report.

Since there appears to have been a number of violations of Virginia insurance laws on the part of the companies, I would urge you to closely review the report. Please provide a written response. When the companies respond, please use the same format (headings and numbering) found in the Report. If not, the response will be returned to the companies to be put in the correct order. By adhering to this practice, it will be much easier to track the responses against the Report. The companies do not need to respond to any particular item with which it agrees. If the companies disagree with an item or wish to further comment on an item, please do so in Part One of the Report. Please be aware that the examiners are unable to remove an item from the report or modify a violation unless the companies provide written documentation to support its position.

Secondly, the company should provide a corrective action plan that addresses all of the issues identified in the examination. In some cases, the issues that should be addressed in the plan may be broader than those that are in Part Two of the Report.

Thirdly, if the companies have comments they wish to make regarding Part Three of the Report, please use the same headings for the comments. In particular, if the examiners identified issues that were numerous but did not rise to the level of a business practice, the companies should outline the actions they are taking to prevent those issues from becoming a business practice.

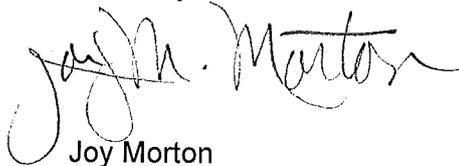
Finally, we have enclosed an Excel file that the companies must complete and return to the Bureau with the companies' response. This file lists the review items for which the examiners identified overcharges (rating and terminations) and underpayments (claims).

The companies' response and the spreadsheet mentioned above must be returned to the Bureau by April 9, 2012.

After the Bureau has received and reviewed the companies' response, we will make any justified revisions to the report. The Bureau will then be in a position to determine the appropriate disposition of the market conduct examination.

We look forward to your reply by April 9, 2012.

Sincerely,

A handwritten signature in cursive script that reads "Joy Morton". The signature is written in black ink and is positioned above the typed name.

Joy Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

STATE CORP COMMISSION
BUREAU OF INSURANCE
12 APR -6 AM 10:35

April 3, 2012

Ms. Joy Morton
Bureau of Insurance
P&C Market Conduct 5th Floor
1300 E. Main Street
Richmond, VA 23219

RE: Market Conduct Examination
Response Insurance Company NAIC# 43044
Response Worldwide Direct Auto Insurance Company NAIC # 20133

Dear Ms. Morton:

Response Insurance Company ("RIC") and Response Worldwide Direct Auto Insurance Company ("RWDIAIC") have reviewed the Preliminary Market Conduct Examination. Our joint response will correspond to the report's three segments: Part One — The Examiners' Observations; Part Two — Corrective Action Plan; and Part Three — Examiners' Notes.

PART ONE — THE EXAMINERS' OBSERVATIONS

Automobile New Business

The Company agrees with the Bureau's findings.

Automobile Renewal Business

The Companies agree with the Bureau's findings.

Company-Initiated Cancellations — Automobile Policies

Notice Mailed Prior To The 60th Day Of Coverage:

No issues noted by the Bureau.

Notice Mailed After The 59th Day Of Coverage:

The Companies agree with the Bureau's findings.

All Other Cancellations — Automobile Policies

Non Payment of Premium:

The Companies agree with the Bureau's findings.

Unitrin Direct

Requested By The Insured:

The Companies agree with the Bureau's findings.

Company-Initiated Non-Renewals — Automobile Policies

The Companies agree with the Bureau's findings.

Automobile Claims

Bureau Observation: There were seven violations of 14 VAC 5-400-70D. The company failed to offer the insured an amount that was fair and reasonable as shown by the investigation of the claim ...the company failed to pay the claim in accordance with the policy provisions under the insured's Medical Expense Benefits coverage.

Company Response: CPA048 The medical bill was reduced to reflect the provider's unbundling services and attempting to charge separately for a service that was included in another charge, as indicated in the attached EOB. The payment was made to the provider at the insured's request. See attached.

Automobile Forms

No Issues noted by the Bureau.

Automobile Policies

The Companies agree with the Bureau's findings.

General Statutory Notices

Bureau Observation: There were two violations of § 38.2-604 of the Code of Virginia. The companies' long form Notice of Information and Disclosure Practices did not contain all the information required by statute.

Companies Response: UD5699 is used to inform insureds of their privacy rights as required by Virginia Code §38.2-604 B. Neither §38.2-604 B nor §38.2-608 A 4 specify the exact language that must appear in the notice to insureds. The law simply states that a notice must be given and what it must include. The Companies maintain that UD5699 is in compliance with these requirements. The Companies also note the title of §38.2-609 of the Code of Virginia is Corrections; statement on disputed information. The title does not specifically say "correct, amend, or delete" but only states "corrections," a broad term which includes amend or delete. As no exact language is prescribed by the statute, the Companies conclude that the language used in UD5699 is in compliance and follows the example of the language used in the title of §38.2-609.

Bureau Observation: The Company's short form Notice of Information Collection and Disclosure Practices failed to meet the requirements of §38.2-604 C of the Code of Virginia. The DNQ Screen does not include any of the required information

Company Response: §38.2-604 c of the Code of Virginia states: *Notwithstanding the provisions of subdivision 1 b of subsection A, when an application for insurance is made by telephone and personal information is collected from a source other than the applicant or public records, the notice of insurance information practices may be given orally at the time of application...* This was a request for a quote and not for a policy. The request for a quote was declined. There was no application being taken by the Company.

Statutory Vehicle Notices

The Companies agree with the Bureau's findings.

Other Notices

No issues noted by the Bureau.

Complaint Handling Process

No issues noted by the Bureau.

Privacy And Information Security Procedures

No issues noted by the Bureau.

PART TWO — CORRECTIVE ACTION PLAN

Bureau's Requested Corrective Action Plan:

Rating and Underwriting Review

- 1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharges.
- 2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' account.
- 3) Complete and submit to the Bureau, the enclosed file titled "Rating Overcharges Cited During The Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- 4) Properly represent the benefits, coverage, advantages and conditions of the policy by showing the correct Transportation Expense limit on the declarations page.
- 5) Provide the Accident Point Surcharge notice to the insured when the companies surcharge the policy for an at-fault accident.
- 6) File all rates and supplementary rates with the Bureau

- 7) Use the rule and rates on file with the Bureau. Particular attention should be focused on the use of filed discounts, surcharges, symbols and model years, tier eligibility criteria, driver classification factors, rounding rules, and filed tier factors.
- 8) Submit to the Bureau a report showing the policy number and the corresponding restitution made to insureds as a result of the tier factor violations on policies effective since August 27, 2008.

Companies Response

- 1) The errors that caused overcharges and undercharges have been addressed, and refunds or credit to the insureds' accounts have been issued.
- 2) The Companies have included six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- 3) Attached is the completed file titled "Rating Overcharges Cited during the Examination." The Companies acknowledge that they have refunded the overcharges listed in the file.
- 4) The Companies have taken corrective steps to ensure that they properly represent the benefits, coverage, advantages and conditions of the policy by showing the correct Transportation Expense limit on the declarations page.
- 5) The Companies have taken corrective steps to ensure they provide the Accident Point Surcharge Notice to the insured when they surcharge the policy for an at-fault accident.
- 6) The Companies have taken corrective steps to ensure they have filed all rates and supplementary rates with the Bureau.
- 7) The Companies have taken corrective steps to ensure they use the rule and rates on file with the Bureau. They have specifically focused on the use of filed discounts, surcharges, symbols and model years, tier eligibility criteria, driver classification factors, rounding rules, and filed tier factors.
- 8) Attached is a report showing each policy number and the corresponding restitution amount needed to be made to insureds as a result of the tier factor violations on policies effective since August 27, 2008. The Companies expect that this project will be completed by the end of May 2012.

Termination Review

Response Insurance Company and Response Worldwide Direct Auto Insurance Company shall:

- 1) Correct the errors that caused the overcharges and undercharges and send refunds to the insureds or credit the insureds' accounts the amount of the overcharge as the date the error first occurred.
- 2) Include six percent (6%) simple interest in the amount refunded and/or credited to the insureds' accounts.
- 3) Complete and submit to the Bureau, the enclosed file titled "Termination Overcharges Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have refunded or credited the overcharges listed in the file.
- 4) Calculate earned premium according to its filed rules and policy provisions.

- 5) Cancel private passenger automobile policies only for those reasons permitted by § 38.2-2212 of the Code of Virginia when the notice is mailed after the 59th day of coverage.
- 6) Obtain and retain valid proof of mailing the cancellation notice to the insured.
- 7) Retain valid proof of mailing the cancellation notice to the lienholder.
- 8) Provide proper notice of cancellation to the lienholder when canceling a policy.

Companies Response

- 1) The error that caused the overcharge has been addressed, and a refund to each insured has been completed.
- 2) The Company has included six percent (6%) simple interest in the amount refunded to each insured.
- 3) Attached is the completed file titled "Termination Overcharges Cited during the Examination." The Companies acknowledge that they have refunded the overcharge listed in the file.
- 4) The Companies have taken corrective steps to ensure they calculate earned premium according to their filed rules and policy provisions.
- 5) The Companies have taken corrective steps to ensure they cancel private passenger automobile policies only for those reasons permitted by § 38.2-2212 of the Code of Virginia when the notice is mailed after the 59th day of coverage.
- 6) The Companies have taken corrective steps to ensure they retain valid proof of mailing the cancellation notice to the insured.
- 7) The Companies have taken corrective steps to ensure they retain valid proof of mailing the cancellation notice to the lienholder.
- 8) The Companies have taken corrective steps to ensure they provide proper notice of cancellation to the lienholder when canceling a policy.

Claims Review

Response Insurance Company and Response Worldwide Direct Auto Insurance Company shall:

- 1) Correct the errors that caused the underpayments and overpayments and send the amount of the underpayment to insureds and claimants.
- 2) Include six (6%) simple interest in the amount paid to the insureds and claimants.
- 3) Complete and submit to the Bureau, the enclosed file titled "Claims Underpayments Cited during the Examination." By returning the completed file to the Bureau, the companies acknowledge that they have paid the underpayments listed in the files.
- 4) Document the claim files so that all applicable coverages have been discussed with the insured. Particular attention should be given to Transportation Expenses coverage.
- 5) Negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.
- 6) Provide copies of vehicle repair estimates prepared by or on behalf of the company to insureds.
- 7) Properly represent pertinent facts or insurance provisions relating to the coverage at issue.

- 8) Provide an aftermarket parts notice to the vehicle owner that complies with the statute.

Companies Response

- 1) The errors that caused the overpayments and underpayments have been addressed, and the amount of the underpayments have been sent to the appropriate insured/s and/or claimant/s with the exception of one file which remains in dispute.
- 2) The Companies have included six percent (6%) simple interest in the amount refunded and/or credited to the insureds and claimants.
- 3) Attached is the completed file titled "Claims Underpayments Cited during the Examination." The Companies acknowledge that that they have paid the underpayments listed in the files.
- 4) The Companies have taken corrective steps to ensure they document the claim files so that all applicable coverages have been discussed with the insured. We have paid particular attention to Transportation Expenses coverage.
- 5) The Companies have taken corrective steps to ensure they negotiate prompt, fair and equitable settlements of claims in which liability is reasonably clear.
- 6) The Companies have taken corrective steps to ensure copies of vehicle repair estimates prepared by or on behalf of the Companies are provided to the insureds.
- 7) The Companies have taken corrective steps to ensure that they represent pertinent facts or insurance provisions relating to the coverage at issue.
- 8) The Companies have taken corrective steps to ensure that an aftermarket parts notice to the vehicle owner complies with the statute.

Review of Policy Issuance Process

Response Insurance Company and Response Worldwide Direct Auto Insurance Company shall:

Properly represent the benefits, coverage, advantages and conditions of the policy by showing the correct Transportation Expense limit on the declarations page.

Companies Response

The Companies have taken corrective steps to ensure that they properly represent the benefits, coverage, advantages and conditions of the policy by showing the correct Transportation Expense limit on the declarations page.

Review of Statutory Notices

Response Insurance Company and Response Worldwide Direct Auto Insurance Company shall:

- 1) Amend the long form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 B of the Code of Virginia.
- 2) Amend the short form Notice of Information Collection and Disclosure Practices to comply with § 38.2-604 C of the Code of Virginia.
- 3) Amend the Adverse Underwriting Decision notice to comply with § 38.2-6010 A of the Code of Virginia and Administrative Letter 1981-16.

- 4) Develop and Accident Point Surcharge notice that complies with § 38.2-1905 A of the Code of Virginia.
- 5) Amend the Rejection of Higher Uninsured Motorist Coverage Limits notice to comply with § 38.2-2202 B of the Code of Virginia.
- 6) Amend the Cancellation notice to comply with § 38.2-2212 E 4 of the Code of Virginia.
- 7) Amend the Cancellation notice to comply with § 38.2-2212 E 5 of the Code of Virginia.
- 8) Provide the 60-day cancellation warning notice on or attached to the first page of the application to comply with § 38.2-2210 A of the Code of Virginia.
- 9) Amend the Credit Score Disclosure notice to comply with § 38.2-2234 A 1 of the Code of Virginia.

Companies Response

- 1) The Companies believe the current long form Notice of Information Collection and Disclosure Practices does not require any changes to comply with § 38.2-604 B of the Code of Virginia.
- 2) The Companies will no longer be using a short form Notice of Information Collection and Disclosure Practices
- 3) The Companies will amend the Adverse Underwriting Decision notice to comply with § 38.2-6010 A of the Code of Virginia and Administrative Letter 1981-16.
- 4) The Companies have taken corrective steps to ensure that they have an Accident Point Surcharge notice that complies with § 38.2-1905 A of the Code of Virginia.
- 5) The Companies have amended the Rejection of Higher Uninsured Motorist Coverage Limits notice to comply with § 38.2-2202 B of the Code of Virginia.
- 6) The Companies have amended the Cancellation notice to comply with § 38.2-2212 E 4 of the Code of Virginia.
- 7) The Companies have amended the Cancellation notice to comply with § 38.2-2212 E 5 of the Code of Virginia.
- 8) The Companies have ceased writing business in RIC and RWDAIC; therefore, no applications are being used.
- 9) The Companies have amended the Credit Score Disclosure notice to comply with § 38.2-2234 A 1 of the Code of Virginia.

PART THREE — RECOMMENDATIONS

Rating and Underwriting

- The companies should file a manual revision that includes model year factors for all rated vehicles and tier claim factor computations.

Companies Response

- A manual revision that includes model year factors for all rated vehicles and tier claim factor computations has been filed.

Termination

- The companies should allow renewal policies to expire when the insured has not provided any premium to accept the companies' renewal offer and cease sending several nonpayment cancellation notices that charge late fees on these expired policies.
- The companies should obtain the insured's written request to cancel his policy mid-term.

Company Response

- The Companies' procedure is now to allow renewal policies to expire when the insured has not provided any premium to accept the companies' renewal offer and has ceased sending nonpayment cancellation notices that charge late fees on these expired policies.
- The Companies are now asking insureds for written requests to cancel their respective policy unless this request is communicated and recorded by telephone.

Claims

- The companies should document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- The companies should deny a claim in writing and keep a copy of the written denial in the claim file.
- The companies should adopt and implement standards for prompt investigation of claims.
- The companies should obtain a written authorization from an insured prior to making payments directly to the medical provider.
- The companies should comply with the provisions of their contract.
- The companies should include the fraud statement on all claim forms required by the companies as a condition of payment.
- The companies should delete any reference to excluded household drivers in their systems.
- The companies should use the term "Other than Collision" coverage instead of "Comprehensive" on checks.
- The companies should use the term "Medical Expense Benefits" coverage instead of "Med Pay Benefits" on checks.

Company Response

- The Companies' procedure is to document the claim file so that all events and dates pertinent to the claim can be reconstructed.
- The Companies' procedure is to deny a claim in writing and keep a copy of the written denial in the claim file.
- The Companies have adopted and implemented standards for prompt investigation of claims.
- The Companies' procedure is to obtain written authorization from an insured prior to making payments directly to the medical provider.

- The Companies will comply with the provisions of their contract.
- The Companies will include the fraud statement on all claim forms required by the companies as a condition of payment.
- The Companies have deleted the reference to excluded household drivers in their systems, which are used on a countrywide basis. The Companies do not use the reference for VA, as household drivers are not excluded
- The Companies are using the term "Other than Collision" coverage instead of "Comprehensive" on checks.
- The Companies are using the term "Medical Expense Benefits" coverage instead of "Med Pay Benefits" on checks.

Acknowledgement

Thank you for the opportunity to respond to the preliminary report. If you have any questions, do not hesitate to contact me.

Sincerely,

Donald P Roinestad

Donald Roinestad, CPCU, CLU, CIC, CRM, AMIM
Director of Compliance

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
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April 16, 2012

VIA UPS 2nd DAY DELIVERY

Donald Roinestad, CPCU, CLU, CIC, CRM, AMIM
Director of Compliance
Unitrin Direct
502 W Germantown Pike
Plymouth Meeting, PA 19462

Re: Market Conduct Examination
Response Insurance Company (NAIC# 43044)
Response Worldwide Direct Auto Insurance Company (NAIC# 20133)
Examination Period: January 1, 2010 – December 31, 2010

Dear Mr. Roinestad:

The Bureau of Insurance (Bureau) has reviewed the Response Insurance Company and Response Worldwide Direct Auto Insurance Company (Companies) April 3, 2012 response to the Preliminary Market Conduct Report (Report) of the Companies. The Bureau has referenced only those items in which the Companies have disagreed with the Bureau's findings. This response follows the format of the Report.

PART ONE – EXAMINERS' OBSERVATIONS

Automobile Claims

(5b) The violation for CPA048 remains in the Report. The company did not provide evidence of an assignment of benefits for the Medical Expense payment made directly to the provider. The EOB included charges for four radiologic examinations and the Emergency Room visit. However, the company did not provide additional information to explain how the 72020 coded radiologic examination was duplicated by other procedures reimbursed by the company. The company should make restitution to the insured as indicated in the Report.

General Statutory Notices

- (1) The violations for NGS004 and NGS011 (UD5699) remain in the Report. Please indicate from where the Companies obtained a copy of the statute. The title of the § 38.2-609 statute is "Correction, amendment, or deletion of recorded personal information" in the LexisNexis Code books and on the BOI website. We have provided a copy for your convenience. However, the title of the statute does not provide for the requirements of the actual statute. The statute repeatedly specifies the insureds' rights to correction, amendment and deletion of their personal information. The statute does not state "correct" without also stating, "amend or delete" in the same sentence. The Bureau holds all insurers to this requirement, and therefore, this violation stays in.
- (2) The violation for NGS007 remains in the Report. This violation was not specific to any one applicant or application. The company indicated in its response to the Data Call Manual that this notice was used to comply with § 38.2-604 C of the Code of Virginia. Since the company used telephone applications, the company was required to have a verbal script to provide the § 38.2-604 notice to all applicants at the time of application. This was the only verbal script provided by the company for this statute during the examination. Further, the company did not indicate if it obtained nonpublic information from a third party source when this declined quote script was used. The DNQ script itself states the company will use information from third parties.

PART TWO – CORRECTIVE ACTION PLAN

Rating and Underwriting Review

- (3) Please explain why the companies did not credit the accounts for policies RPA030 and RPA034. If there is a bad debt, the companies should subtract the restitution amount from the bad debt and reflect such in the Restitution spreadsheet.
- (8) The companies should provide the completed spreadsheet to the Bureau by May 4, 2012. The completed spreadsheet should be provided in the same format as the Restitution spreadsheet showing the policy number, check number, date of the check, and the amount of the refund.

Claims

- (3) Please provide supporting documentation for the amount of the restitution made for CPA044. This should include applicable bills and claim notes.

Review of Statutory Notices

- (2) Because the companies are no longer writing new business in Virginia, the companies do not need to have a short form Notice of Information Collection and Disclosure Practices. However, if the companies were to begin writing business in Virginia again, the companies would be required to provide either the short form or long form notice to insureds at the time of application. Since the companies were binding coverage via telephone applications, it would be advisable that the short form notice would be corrected and used.
- (3-7) Please provide a copy of the revised notices.
- (9) Please provide a copy of the revised notice.

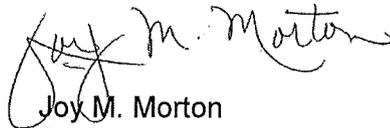
PART THREE – RECOMMENDATIONS

Termination

- It is noted that the companies have filed a revision to their policy provisions to permit verbal requests for cancellation from insureds.

The Companies should submit a revised Restitution spreadsheet with their written response to this letter. The Companies' response to this letter is due in the Bureau's office by May 4, 2012.

Sincerely,



Joy M. Morton
Supervisor
Market Conduct Section
Property and Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov

Enclosures

KEMPER DIRECT

May 7, 2012

Ms. Joy Morton
Bureau of Insurance
P&C Market Conduct 5th Floor
1300 E. Main Street
Richmond, VA 23219



RE: Market Conduct Examination
Response Insurance Company NAIC #43044
Response Worldwide Direct Auto Insurance Company NAIC #20133

Dear Ms. Morton:

Response Insurance Company ("RIC") and Response Worldwide Direct Auto Insurance Company ("RWDAIC") have reviewed the follow-up of the Preliminary Market Conduct Examination by the Bureau. Our joint response will correspond to the report's three segments: Part One — The Examiners' Observations; Part Two — Corrective Action Plan; and Part Three — Recommendations.

PART ONE — THE EXAMINERS' OBSERVATIONS

Automobile Claims

(5b) The violation for CPA048 remains in the report

Company Response:

(5b) The Company respectfully disagrees. Attached is the first set of bills and emails submitted by the insured. The emails from the insured and the notes written on the bills by the insured clearly indicate that the insured was authorizing the company to directly pay the hospital. Also included is the hospital bill that was received after the insured had given the company the authority to directly pay the provider.

The \$177.88 charge from Riverside that was disallowed for Date of Service 8/1/10 was because of improper billing from the provider, i.e., "un-bundling" of services. The procedure set forth in Code 72020 is included. (It is considered a derivative of Code 75050.) Once the provider bills for 75050, the services provided under 75020 are already included in that charge, unless they provide an additional modifier to indicate a distinctly separate procedure was completed. There

was no modifier included, so the charge is a duplicate and is not subject to reimbursement. A clarifying note from the re-pricing vendor is attached. (See Attachment One, Two and Three.)

General Statutory Notices

(1) The violations for NGS004 and NGS001 (UD5699) remain in the report.

(2) The violation for NGS007 remains in the report.

Companies Response:

(1) UD5699 is used to inform insureds of their privacy rights as required by Virginia Code §38.2-604 B. Neither §38.2-604 B nor §38.2-608 A 4 specify the exact language that must appear in the notice to insureds. The law simply states that a notice must be given and what it must include. The Companies maintain that UD5699 is in compliance with these requirements. The Companies also note the title of §38.2-609 of the Code of Virginia is Corrections; statement on disputed information. The title does not specifically say "correct, amend, or delete" but only states "corrections," a broad term which includes amend or delete. As no exact language is prescribed by the statute, the Companies conclude that the language used in UD5699 is in compliance and follows the example of the language used in the title of §38.2-609.

(2) The companies acknowledge the Bureau's position.

PART TWO — CORRECTIVE ACTION PLAN

Rating and Underwriting Review

(3) Please explain why the companies did not credit the accounts for policies RPA030 and RPA034. If there is a bad debt, the companies should subtract the restitution amount from the bad debt and reflect such in the Restitution spreadsheet.

(8) The companies should provide the completed spreadsheet to the Bureau by May 4, 2012. The completed spreadsheet should reflect the same format as the Restitution spreadsheet, showing the policy number, check number, date of check, and the amount of the refund.

Companies Response:

(3) The companies did not credit the accounts for policies RPA030 and RPA034 because of bad debt. Documentation is attached and the spreadsheet has been updated.

(8) A completed Restitution spreadsheet is included.

Claims

(3) Please provide supporting documentation for the amount of the restitution made for CPA044. This should include applicable bills and claim notes.

Companies Response:

(3) The documentation for the restitution and claim notes are attached. (See Attachment Four.)

Review of Statutory Notices

(2) Because the companies are no longer writing new business in Virginia, the companies do not need to have a short form Notice of Information Collection and Disclosure Practices. However, if the companies were to begin writing business in Virginia again, the companies would be required to provide either the short or long form notice to the insured at the time of application. Since the companies were binding coverage via telephone applications, it would be advisable that the short form notice would be corrected and used.

(3-7) Please provide copies of the revised notices.

(9) Please provide copies of the revised notices.

Companies Response

(2) The companies would provide a long form and have the short form notice in a script, which is attached.

(3 – 7) Revised notices are attached. (See Attachments Five to Eight)

(9) Revised notices are attached. (See Attachment Nine)

PART THREE — RECOMMENDATIONS

No comments necessary Acknowledgement

Thank you for the opportunity to respond to the preliminary report. If you have any questions, do not hesitate to contact me.

Sincerely,



Donald Roinestad, CPCU, CLU, CIC, CRM, AMIM
Director of Compliance

Attachments

Andrea Baytop

From: Andrea Baytop
Sent: Thursday, May 24, 2012 5:02 PM
To: 'Roinestad, Don'
Cc: Joy Morton
Subject: Response Report Revisions 5/24/12

Hello Don,

Thank you for organizing the conference call today with the pertinent Response personnel so we could discuss the company's May 7, 2012 response. I have summarized the items discussed in our conference call today.

1. We have withdrawn the violation for CPA048 regarding the Medical Expense claim after reviewing the additional documentation provided in the company's response.
2. The Bureau's position has remained that any AUD notice must specifically state the insured's rights to correction, amendment, and deletion of his personal information. Section 38.2-609 indicates the importance between these three words by repeatedly specifying correct, amend and delete throughout the statute. The Bureau stresses the importance on the content of the statute instead of the different titles that may be used in different law sources used by the companies.
3. The companies have agreed to make the restitution for RPA030 and RPA034 since the bad debts have been resolved.
4. The companies will make the adjustments to the revised notices as discussed during the conference call.

Please let me know if you have any additional questions or concerns.

Thank you,

Andrea Baytop

Senior Insurance Market Examiner
P&C Market Conduct Section
Virginia Bureau of Insurance
804.371.9547
andrea.baytop@scc.virginia.gov

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

June 6, 2012

VIA UPS 2nd DAY DELIVERY

Donald Roinestad, CPCU, CLU, CIC, CRM, AMIM
Director of Compliance
Unitrin Direct
502 West Germantown Pike, Ste. 900
Plymouth Meeting, PA 19462

Re: Market Conduct Examination
Response Insurance Company (NAIC #43044)
Response Worldwide Direct Auto Insurance Company (NAIC #20133)
Examination Period: January 1, 2010-December 31, 2010

Dear Mr. Roinestad:

The Bureau of Insurance (Bureau) has concluded its review of the companies' response of May 7, 2012. Based upon the Bureau's review of the companies' response and our conference call of May 24, 2012 we are now in a position to conclude this examination. Enclosed are the final Market Conduct Examination Report and the technical reports of Response Insurance Company and Response Worldwide Direct Auto Insurance Company (Report).

Based on the Bureau's review of the Report and the companies' responses, it appears that a number of Virginia insurance laws and regulations have been violated, specifically:

Sections 38.2-305 A, 38.2-502 A, 38.2-510 A 1, 38.2-510 C, 38.2-604 B, 38.2-604 C, 38.2-610 A, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2202 B, 38.2-2208 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F and 38.2-2234 A, of the Code of Virginia; and 14 VAC 5-400-40 A, 14 VAC 5-400- 70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code.

Violations of the laws mentioned above provide for monetary penalties of up to \$5,000 for each violation as well as suspension or revocation of an insurer's license to engage in the insurance business in Virginia.

In light of the above, the Bureau will be in further communication with you shortly regarding the appropriate disposition of this matter.

Sincerely,

Joy M. Morton
Supervisor
Market Conduct Section
Property & Casualty Division
(804) 371-9540
joy.morton@scc.virginia.gov



KEMPER
DIRECT

STATE CORP COMMISSION
BUREAU OF INSURANCE

Kemper Direct
One East Wacker Dr., Suite 3700
Chicago, Illinois 60601
kemperdirect.com

12 JUL -2 AM 9:45

Mary Bannister
Deputy Commissioner
Property and Casualty
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

400070

Re: Market Conduct Examination
Response Insurance Company (NAIC #43044)
Response Worldwide Direct Auto Insurance Company (NAIC #20133)
Examination Period: January 1, 2010-December 31, 2010

Dear Ms. Bannister:

This will acknowledge receipt of the Bureau of Insurance's letter dated June 11, 2012, concerning the above referenced matter.

We wish to make a settlement offer on behalf of the insurance companies listed below for the alleged violations of §§ 38.2-305 A, 38.2-502 A, 38.2-510 A 1, 38.2-510 C, 38.2-604 B, 38.2-604 C, 38.2-610 A, 38.2-1905 A, 38.2-1906 A, 38.2-1906 D, 38.2-2202 B, 38.2-2208 A, 38.2-2208 B, 38.2-2210 A, 38.2-2212 D, 38.2-2212 E, 38.2-2212 F and 38.2-2234 A of the Code of Virginia; as well as 14 VAC 5-400-40 A, 14 VAC 5-400-70 D, and 14 VAC 5-400-80 D of the Virginia Administrative Code that indicate a general business practice.

1. We enclose with this letter a check payable to the Treasurer of Virginia in the amount of \$32,200.00.
2. We agree to comply with the corrective action plan set forth in the companies' letters of April 3, 2012 and May 7, 2012.
3. We confirm that restitution was made to 1836 consumers for \$325,440.48 in accordance with the companies' letters of April 3, 2012 and May 7, 2012.
4. We further acknowledge the companies' right to a hearing before the State Corporation Commission in this matter and waive that right if the State Corporation Commission accepts this offer of settlement.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Sincerely,

Response Insurance Company
Response Worldwide Direct Auto Insurance Company



(Signed)

E.C. Lupetin

(Type or Print Name)

VP Compliance & Underwriting

(Title)

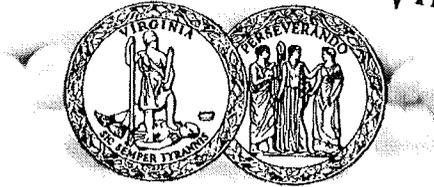
6/25/2012

(Date)

Enclosure

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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Response Insurance Company and Response Worldwide Direct Auto Insurance Company have tendered to the Bureau of Insurance the settlement amount of \$32,200 by their check numbered 187804 and dated June 28, 2012, a copy of which is located in the Bureau's files.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JULY 12, 2012

REG-CLERK'S OFFICE
TEXT CONTROL CENTER

2012 JUL 12 P 3:00

120720159

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2012-00131

RESPONSE INSURANCE COMPANY
and
RESPONSE WORLDWIDE DIRECT AUTO
INSURANCE COMPANY,
Defendants

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Response Insurance Company and Response Worldwide Direct Auto Insurance Company ("Defendants"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), violated § 38.2-305 A of the Code of Virginia ("Code") by failing to provide the information required by the statute in the insurance policy; violated § 38.2-502 of the Code by misrepresenting the benefits, advantages, conditions or terms of an insurance policy; violated §§ 38.2-604 B, 38.2-604 C, 38.2-610 A, 38.2-1905 A, 38.2-2202 B, 38.2-2210 A, and 38.2-2234 A of the Code by failing to accurately provide the required notices to insureds; violated §§ 38.2-1906 A and 38.2-1906 D of the Code by making or issuing insurance contracts or policies not in accordance with the rate and supplementary rate information filings in effect for the Defendants; violated §§ 38.2-2208 A, 38.2-2208 B, 38.2-2212 D, 38.2-2212 E, and 38.2-2212 F of the Code by failing to properly terminate insurance policies; and violated §§ 38.2-510 A 1 and 38.2-510 C of the Code, as well as subsection A of 14 VAC 5-400-40,

Misrepresentation of policy provisions, subsection D of 14 VAC 5-400-70, *Standards for prompt, fair and equitable settlement of claims applicable to all insurers*, and subsection D of 14 VAC 5-400-80, *Standards for prompt, fair and equitable settlements applicable to automobile insurance*, of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke the Defendants' licenses upon a finding by the Commission, after notice and opportunity to be heard, that the Defendants have committed the aforesaid alleged violations.

The Defendants have been advised of their right to a hearing in this matter, whereupon the Defendants, without admitting any violation of Virginia law, have made an offer of settlement to the Commission wherein the Defendants have tendered to the Commonwealth the sum of Thirty-two Thousand Two Hundred Dollars (\$32,200), waived their right to a hearing, agreed to comply with the Corrective Action Plan set forth in their letters to the Bureau dated April 3, 2012, and May 7, 2012, and confirmed that restitution was made to 1,836 consumers in the amount of Three Hundred Twenty-five Thousand Four Hundred Forty Dollars and Forty-eight Cents (\$325,440.48).

The Bureau has recommended that the Commission accept the offer of settlement of the Defendants pursuant to the authority granted the Commission in § 12.1-15 of the Code.

NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendants, and the recommendation of the Bureau, is of the opinion that the Defendants' offer should be accepted.

Accordingly, IT IS ORDERED THAT:

(1) The offer of Response Insurance Company and Response Worldwide Direct Auto Insurance Company in settlement of the matter set forth herein be, and it is hereby, accepted.

(2) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Donald Roinstead, Unitrin Direct, 502 West Germantown Pike, Suite 900, Plymouth Meeting, Pennsylvania 19462; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Mary M. Bannister.